STATE OF CALIFORNIA GRAY DAVIS, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

March 21, 2002

TO: PARTIES OF RECORD IN APPLICATION 00-11-038 AND RELATED MATTERS

Decision 02-03-062 is being mailed without the written dissent from Commissioner Henry M. Duque. The dissent will be mailed separately.

Very truly yours,

/s/ CARL K. OSHIRO

Carl K. Oshiro, Interim Chief
Administrative Law Judge

Attachment

MAIL DATE
March 21, 2002

Decision 02-03-062 March 21, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.	Application 00-11-038 (Filed Nov. 26, 2000)
Emergency Application of Pacific Gas and Electric Company (U 39 E) to Adopt a Rate Stabilization Plan.	Application 00-11-056 (Filed Nov. 22, 2000)
Petition of The Utility Reform Network for Modification of Resolution E-3527.	Application 00-10-028 (Filed Oct. 17, 2000)

ORDER MODIFYING DECISION (D.) 02-02-052 AND DECISION (D.) 02-03-003 AND DENYING REHEARING OF THESE DECISIONS, AS MODIFIED

In this decision, we dispose of the applications for rehearing of Commission Decisions (D.) 02-02-052 and 02-03-003. As discussed in this decision, we are modifying D.02-02-052 to correct certain errors identified by the Applicants. We will also modify D.02-03-003 as a result of the modifications to D.02-02-052. Further, we correct clerical errors in both decisions. Rehearing of D.02-02-052, as modified, and D.02-03-003, as modified, shall be denied.

I. Background

These rehearing applications concern the Commission's allocation of the Department of Water Resources' (DWR) 2001-2002 revenue requirement. Decision (D.) 02-02-052 determines the methodology for allocating DWR's revenue requirement among the three investor-owned utilities' service territories and establishes a per kilowatt hour (kWh) charge for each utility to remit to DWR. Decision (D.) 02-03-003 corrects several clerical errors in D.02-02-052.

D.02-02-052 (Revenue Requirement Decision) is one of a number of decisions in which the Commission is implementing the provisions of Assembly Bill (AB) 1 from the First Extraordinary Session (AB 1X), signed into law on February 1, 2001. In AB 1X, the Legislature responded to the inability of Southern California Edison Company (Edison) and Pacific Gas & Electric Company (PG&E) to buy the power needed to serve their customers.

AB 1X authorizes DWR to purchase electric power to sell directly to the electric utilities' customers. DWR is authorized to recover from utility customers amounts sufficient to cover:

> (1) The amounts necessary to pay the principal of and premium, if any, and interest on all bonds as and when the same shall become due.
>
> (2) The amounts necessary to pay for power purchased by it and to deliver it to purchasers, including the cost of electric power and transmission, scheduling, and other related expenses incurred by the department, or to make payments under any other contracts, agreements, or obligations entered into by it pursuant hereto, in the amounts and at the times the same shall become due.
>
> (3) Reserves in such amount as may be determined by the department from time to time to be necessary or desirable.
>
> (4) The pooled money investment rate on funds advanced for electric power purchases prior to the receipt of payment for those purchases by the purchasing entity.
>
> (5) Repayment to the General Fund of appropriations made to the fund pursuant hereto or hereafter for purposes of this division, appropriations made to the Department of Water Resources Electric Power Fund, and General Fund moneys expended by the department pursuant to the Governor's Emergency Proclamation dated January 17, 2001.
>
> (6) The administrative costs of the department incurred in administering this division.
>
> (Water Code § 80134(a).)

This amount, known as DWR's "revenue requirement," shall be communicated to the Commission by DWR at such time as it determines to be appropriate, but no less than annually. (Water Code §§ 80110, 80134(a).)

On May 2, 2001, DWR presented its revenue requirement for the years 2001 and 2002. This amount was revised several times in response to comments by parties and the Assigned Commissioner, and DWR submitted its most recent revised revenue requirement on November 5, 2001.

Hearings were held in November 2001 regarding the methodology for allocating DWR's revenue requirement. Parties suggested various methods to allocate DWR's revenue requirement among the three utility service territories. These methodologies could be grouped into two general categories. One group proposed that the allocation be made on a pro-rata basis based on the net short position[1] of each utility ("postage stamp" allocation). The other group proposed that costs be allocated based on location ("zonal" allocation).

On February 21, 2002, DWR submitted a letter to Commission President Lynch (February 21st letter) identifying certain adjustments that could be made to its revenue requirement. The amount of these adjustments, a $609 million reduction in DWR's lead/lag amount and a $349 million reduction in DWR's interim loan costs, resulted in a $958 million reduction to DWR's November 5, 2001, revenue requirement. On that same day, the Commission voted out the Revenue Requirement Decision. This decision incorporates the adjustments identified in DWR's February 21st letter and reduces DWR's 2001-2002 revenue requirement from $10.003 billion to $9.045 billion. It then allocates DWR's adjusted revenue requirement based on certain aspects of the zonal methodology proposed by Edison. The decision also establishes a specific cents/kWh charge for

[1] Net short refers to the amount of power the utilities need DWR to supply to their customers.

each utility to use to calculate amounts due to DWR and procedures for remitting funds to DWR.

The Revenue Requirement Decision was mailed on February 22, 2002. This decision implements the provisions of AB 1X and is subject to the 10-day time limit for filing applications for rehearing under Public Utilities Code section 1731(c). In this instance, rehearing applications were due by March 4, 2002. On March 1, 2002, the Commission's Executive Director mailed D.02-03-003 (Correcting Order), which corrected several clerical errors in the Revenue Requirement Decision. Contrary to TURN/Aglet's assertions, the Correcting Order does not extend the time to file an application for rehearing of the Revenue Requirement Decision.

On March 4, 2002, applications for rehearing of the Revenue Requirement Decision were filed by PG&E, Edison, The Utility Reform Network and Aglet Consumer Services (TURN/Aglet), and the City of San Diego.

In its rehearing application, PG&E contends that: (1) the decision adopts an allocation methodology which is unsupported by the record; (2) the adopted methodology violates the requirements of Water Code section 80002.5; and (3) the decision unlawfully permits DWR to recover certain costs. PG&E further maintains that even if the allocation methodology was supported by the record, the Commission did not apply that methodology properly, acted in an arbitrary and capricious manner in adjusting the allocations, and failed to make certain adjustments which were supported by the record.

Edison's rehearing application also contends that the decision does not reflect its proposed allocation methodology. Additionally, Edison alleges that the Commission should have permitted the possibility of retroactively adjusting the allocation on an hourly cost basis. Edison also believes that the decision erroneously retained certain language from the ALJ's Proposed Decision which is inconsistent with the adopted Revenue Requirement Decision.

TURN/Aglet also challenge the allocation methodology adopted in the Revenue Requirement Decision. They also maintain that the decision contains certain internal contradictions and violates Public Utilities Code section 1705.

In its rehearing application, the City of San Diego contends that the decision violates either Public Utilities Code sections 1705 and 1708 or the California Constitution and the San Diego City Charter in its disposition of franchise fees.

Edison and San Diego Gas and Electric Company (SDG&E) filed timely responses to the rehearing applications on March 8, 2002.

On March 11, 2002, PG&E filed an application for rehearing of the Correcting Order. PG&E alleges that the Correcting Order makes substantive changes to the Revenue Requirement Decision, and therefore is unlawful under Public Utilities Code sections 310, 311, and 1708.

II. Revenue Requirement Adopted

PG&E contends that the Commission acted in an arbitrary and capricious manner, contrary to Commission rules and in violation of due process when it incorporated the adjustments outlined in DWR's February 21st letter into DWR's November 5th revenue requirement. Its assertions are based on a mistaken belief that DWR had revised its revenue requirement in the February 21st letter.

Contrary to PG&E's assertions, DWR did not submit a revised revenue requirement to the Commission on February 21, 2002. (PG&E Application, at p. 14.) Rather, DWR's letter stated, "the adjustments described below *can be* made to [DWR's] pending revenue requirement." (Letter from Peter S. Garris, February 21, 2002, at p. 1 (emphasis added).)[2] DWR's adjustments were in response to comments raised by the parties. However, it was up to the

[2] DWR's February 21, 2002 letter was formally placed into the administrative record on March 4, 2002. (Administrative Law Judge's Ruling Directing Letter to be Placed into the Administrative Record, March 4, 2002, at p. 2.)

Commission to decide whether to incorporate these adjustments. Thus, DWR had not submitted a revised revenue requirement. Furthermore, even if DWR's comments in the February 21st letter could be construed as updating its revenue requirement, these changes were made in response to parties' comments to both the Proposed Decision and the Alternate Decision. As explained below, there was no need to have a further opportunity to comment on the letter.

PG&E believes that parties were denied due process because they were not provided prior notice and opportunity to comment on the February 21st letter before the Commission incorporated the adjustments. (PG&E Application, at p. 17.) We disagree. As discussed below, the adjustments identified by DWR in its February 21st letter were raised by parties in their comments to the Proposed Decision and the Alternate Decision. Indeed, the changes to the lead/lag amount to reflect changes from accrual to cash for revenues and expenses calculations for 2002 were raised by DWR in a December 6, 2001 letter to Commissioner Brown.[3] Therefore, parties have already had notice and an opportunity to comment on the adjustments. Additionally, under AB 1X, DWR is the only one responsible for determining the level of its revenue requirement, therefore, any conclusion by DWR that its revenue requirement could be reduced would most likely be reached after parties have commented. Moreover, since the result of the Commission's action to incorporate the adjustments identified in the February 21st letter was to reduce DWR's revenue requirement, there has been no harm to ratepayers or the utilities. Therefore, PG&E's assertion has no merit.

PG&E next contends that "over $600 million in changes" were substantive changes to the decision and that the Commission violated Public Utilities Code sections 311(e) and 1701, and Commission Rule 77.6 by not serving these changes on parties for public review and comment. (PG&E Application, at

[3] This letter was served on all parties and is part of the administrative record.

p. 18.) PG&E is incorrect. Under Rule 77.6(a) of the Commission's Rules of Practice and Procedure, revisions to a Commissioner's alternate only require a further round of notice and comment if changes are "substantive." However, there is no substantive revision if "the revision does no more than make changes suggested in prior comments on the proposed decision, or in a prior alternate to the proposed decision." Thus, under Rule 77.6, a further round of comments is not required where the Commission reaches a different conclusion, even on an important issue, in response to the final round of comments. While it is unclear to what changes PG&E is referring, the two adjustments made to DWR's November 5th revenue requirement are not substantive changes as defined under Rule 77.6, because DWR's conclusion that these adjustments could be made, was in response to comments by parties. Upon consideration of the comments filed by parties to both the Proposed Decision and the Alternate Decision, the Commission determined that it would be appropriate to incorporate these adjustments into DWR's revenue requirement. This determination, which reduced DWR's revenue requirement, was made in response to parties' comments and thus is not a "substantive" change. Consequently, no further opportunity for additional comments was required. Accordingly, PG&E's claims of legal error are without merit.

PG&E's assertion that DWR's proposed $609 million lead/lag adjustment is coercive or would require the Commission to predetermine the outcome of a separate proceeding is also baseless. (PG&E Application, at pp. 14-15.) Despite the contingent nature of the adjustment, we determined that it would be in the public interest to reduce DWR's revenue requirement by this amount. It is undisputed that ratepayers will pay the $609 million amount that is at issue in the URG Phase. The only question is to whom the payment will be made. If the revenue requirement were not adjusted by this amount, and it was later determined that these costs should have been assigned to the utilities, then DWR will have overcollected its revenue requirement. However, ratepayers will not be responsible for paying the amount that is at issue in the URG Phase until after the party to whom payment should be made is determined. Consequently, we were not coerced into reducing DWR's revenue requirement. Additionally, our decision to incorporate the $609 million adjustment does not prejudge any portion of the URG Phase of this proceeding. The issue of whether the proposed utility retained generation adjustments identified in DWR's February 21st letter should be paid by the utilities is currently being considered by the Commission in the URG Phase of the Rate Stabilization Proceeding. (See, Assigned Commissioner's Ruling (Utility Retained Generation Phase), February 4, 2002.)

Finally, PG&E raises comments regarding the "Summary of Material Terms" which was attached to DWR's February 21st letter. (PG&E Application, at p. 15.) This attachment is not relevant to the Revenue Requirement Decision and thus, PG&E has improperly raised these comments in this rehearing application.

For the reasons stated above, we properly reduced DWR's revenue requirement. However, we believe that the decision does not clearly explain that the adjustments identified in the February 21st letter were incorporated into DWR's November 5th revenue requirement. Therefore, the following sentence is added after the first full paragraph on page 2: "We incorporate DWR's adjustments and hereby reduce DWR's November 5, 2001 revenue requirement to $9,045,462,000."

III. Allocation Methodology

A. Commission Authority to Determine Allocation Methodology

PG&E maintains that the adopted methodology violates Water Code section 80002.5 because it allocates proportionally more power and costs to PG&E and Edison customers than SDG&E customers. (PG&E Application, at p. 12.) It further contends that the decision is contrary to Water Code section 80116. These assertions must fail.

Water Code section 80002.5 states in pertinent part that "[p]ower sold by [DWR] to retail end use customers shall be allocated pro-rata among all classes of customers to the extent practicable." Water Code section 80002.5 only prescribes how DWR's *power* is to be allocated among customer classes, not how its *revenue requirement* is to be allocated. Water Code section 80116 states that the department "may sell any power acquired . . . to retail end use customers . . . at not more than [DWR's] acquisition costs, including transmission, scheduling, and other related costs, plus other costs as provided in [Water Code] Section 80200." This also does not prescribe how DWR's revenue requirement is to be allocated, but merely limits the amount DWR may charge for the power it sells to retail end use customers. Thus, only a strained reading of these two statutes would lead one to conclude that the Legislature had required that DWR's revenue requirement be allocated on a pro rata basis to each service territory.

Since the statute does not specify how DWR's revenue requirement is to be allocated, we could not rely on the statute, but rather based our allocation decision on the factual record. This is within our discretion. We have traditionally allocated utility revenues among customer classes based on cost causation principles and have applied these same principles to allocating DWR's revenue requirement among the three utility service territories. (D.02-02-052, at pp. 56-58.) Therefore, we properly exercised our discretion in making our allocation decision based on the evidence in the administrative record.[4]

[4] Furthermore, PG&E's argument that the Commission should have adopted a pro rata cost allocation because DWR could allocate or calculate its costs on a pro rata basis or believed that such an allocation would be easier to calculate is unfounded. (PG&E Application, at p. 13.) If PG&E's argument were true, then allocation of DWR's revenue requirement would be based on DWR's computational skills and preferences, not cost causation.

B. Evidentiary Support for Adopted Methodology

PG&E and TURN/Aglet contend that the allocation method adopted in the Revenue Requirement Decision is not supported by substantial evidence in the record. (PG&E Application, at p. 3; TURN/Aglet Application at p. 2.) Their allegation is based primarily on their assertions that the Revenue Requirement Decision discusses the same evidence and reaches many of the same conclusions as the ALJ Proposed Decision adopting the pro rata allocation methodology, which had been proposed by PG&E, TURN and Aglet. Indeed, PG&E challenges the Revenue Requirement Decision because it reaches a different conclusion than the one reached by the ALJ in his Proposed Decision. (PG&E Application, at pp. 3-4.) The Revenue Requirement Decision was the Alternate Decision proposed by Commissioner Wood. The Alternate considered the same record evidence and analyzed the same criteria. However, it weighed the evidence differently and reached a different conclusion. Indeed, if that were not the case, Commissioner Wood would not have proposed an Alternate. PG&E's challenge merely points out that depending on how the evidence is weighed, one of two conclusions could be reached. However, the fact that we weighed the evidence differently and reached a different conclusion than the ALJ does not constitute legal error.

Edison's zonal allocation methodology was one of several methodologies considered during the hearings held concerning DWR's revenue allocation. All the methodologies were extensively litigated. The record developed for Edison's methodology was comparable to that developed for the other proposed methodologies. As SDG&E correctly notes in its response to the rehearing application, "If TURN were right [that Edison's methodology was not supported by the record] then NO proposal could be adopted, as they all rely on the same record." (Response of San Diego Gas & Electric Company to Applications for Rehearing of D.02-02-052, filed March 8, 2002, at p. 3.) Both PG&E and TURN/Aglet are essentially challenging the Commission's weighing of the evidence, as they believe their proposed methodology should have been given greater weight. This, however, is not a basis for finding legal error. (See *Eden Hospital Dist. v. Belshe* (1988) 65 Cal.App.4th 908, 915.)

TURN's assertions that the Revenue Requirement Decision contains internal contradictions is also without merit. (TURN/Aglet Application, at p. 4.) The "contradictory statements" in the Revenue Requirement Decision identified by TURN/Aglet are simply part of the Commission's discussion and consideration of the criteria to determine the allocation of power procurement commodity costs among the three utility service territories. The passages cited by TURN/Aglet merely show that the Commission was not persuaded that two of the criteria considered, supply portfolio and transmission constraints, were the appropriate basis for allocating long-term contract power costs. Long-term contracts involve procurement and allocation of power that cover multiyear periods. Since it cannot be determined which service territories will need the power at 5, 10 or 15 years, or longer, in the future, it was more reasonable to allocate the costs of those contracts on a pro rata basis. This conclusion is consistent with the testimony of Edison's witness Stern and with the manner in which DWR procured long term power. On the other hand, power purchases to serve demand in the short-term can more readily be matched with demand attributed to a specific region . Moreover, DWR indicated that one of its objectives was to match sources of supply with regional demand. Consequently, we were persuaded that allocation of short-term power costs based on location of power source to be a reasonable means of allocating these costs. (D.02-02-052, at pp. 68-69.)

While we conclude that we did not abuse our discretion in using different criteria to allocate long-term and short-term procurement contract costs, we concede that the decision does not clearly explain why we considered certain criteria more applicable for the allocation of short-term contracts than long-term contracts. This lack of clarity may have contributed to TURN/Aglet's belief that the decision contained internal contradictions. Accordingly, we shall modify the decision as outlined in Ordering Paragraphs 1i through 1t. Additionally, we shall make the following changes to the Findings of Fact and Conclusions of Law:

1. On page 107, FOF 49 shall be deleted and replaced with the following:

> “49. To the extent that regional locations of supplies were used to meet electric needs of customers in the same region, it is reasonable to attribute those supplies to short-term, rather than long-term, supply sources.
>
> 49a. While long-term contract power was procured to serve the overall needs of California consumers as a whole, short-term power was procured to fill in the specific remaining needs of the customers in each of the utility service territories.”

2. On page 111, COL 10 shall be deleted and replaced with the following:

> “10. It is reasonable to adopt SCE’s allocation approach to the extent that it assigns short-term costs on a zonal basis, and long-term costs on a statewide pro rata basis.
>
> 10a. There is not sufficient basis at this time to adopt SCE’s proposal to allocate power costs on an hourly basis, but such proposal may be given further consideration in a subsequent allocation proceeding on a prospective basis.”

We are attaching to this order, revised pages 65 through 72 of the Revenue Requirement Decision, which incorporate the changes to those pages ordered in the Ordering Paragraphs.

TURN/Aglet and PG&E next maintain that the Commission improperly concludes that the pro rata allocation methodology should not be adopted because it does not consider the need for local voltage and service reliability. (TURN/Aglet Application, at p. 7; PG&E Application, at pp. 4-5.) Both Applicants assert that there is no record evidence to support this statement. We disagree. Record evidence was not necessary, since the need for local generation to provide stability and voltage support is common knowledge in the utility industry. Consequently, it was within our discretion to conclude that local reliability should be considered. Furthermore, even if such a conclusion required record evidence, there was no error, since we would still have adopted the zonal allocation methodology even absent consideration of local reliability issues. As discussed, all of the allocation methodologies contained shortcomings. (D.02-02-052, at p. 76.) Consequently, based on the evidence presented, we adopted the approach that we considered most reasonable. We determined that Edison's proposal was most reasonable because it considered costs based on whether they were incurred to meet individual utility needs or the combined needs of all the utilities, and thus, was more consistent with the Commission's cost allocation principles. Accordingly, we find no error.

TURN/Aglet challenge the "arbitrary distinction" between the allocation of long-term and short-term procurement contracts. (TURN/Aglet Application, at p. 8.) They assert that there is no basis for establishing a 90-day break point for cost allocation. The 90-day distinction was proposed by Edison witness Stern. (Stern, 39 RT 5904.) There is no evidence in the record to support a different break point for distinguishing between short-term and long-term contracts. Consequently, we adopted the break point that was supported by evidence in the record.

TURN/Aglet further contend that the record demonstrates that DWR's choice of the contract terms was based on time, not geography and transmission constraints, and that most of DWR's contracts in the first months of 2001 were only short-term contracts. (TURN/Aglet Application, at pp. 8-9.) While such evidence is in the record, TURN/Aglet fail to also acknowledge that there is evidence in the record that DWR had considered regional delivery locations and transmission congestion in the purchase decisions. (See, e.g., DWR's responses to data requests SCE-01 and PG&E-08.) Additionally, Edison witness Stern provided reasonable arguments that these considerations may have played some part in DWR's purchases to cover each utility's net short. (Stern, 39 RT 5861:25-5865:14.) This evidence, that DWR considered geographical factors in procuring short-term contracts, including those entered into in early 2001, provides support for our conclusion that short-term contract costs should be allocated using a zonal methodology. Furthermore, this evidence provides support for our conclusion that utilities were likely to have covered their own net short through short-term purchases close to their service territories. (D.02-02-052, at p. 68.) In its rehearing application, PG&E disputes such a conclusion, stating that its "purchased power over the years has come from sources far from PG&E's service territory." (PG&E Application, at p. 4.) However, it offers no evidentiary support for these statements. There is no error merely because we found certain evidence in the record to be more persuasive than comments in PG&E's application for rehearing.

PG&E also contends that the Revenue Requirement Decision discriminates against northern California utility customers in favor of southern California customers by allocating more costs to its service territories than to the other two service territories. It asserts that this is in violation of state law (e.g., Public Utilities Code section 453(c)) and constitutional equal protection provisions. (PG&E Application, at p. 6.) PG&E's claim of discrimination is unfounded. Public Utilities Code section 453(c) provides that there cannot be unreasonable differences between localities. However, in this instance, DWR's revenue requirement was allocated based on cost causation. (D.02-02-052, at pp. 56-59.) Cost causation is not an unreasonable differentiation. Additionally, in order for there to be a violation of equal protection, there must be a difference in treatment between similarly situated parties. (*City of Cleburne v. Cleburne Living Center* (1985) 473 U.S. 432, 439; *Gray v. Whitmore* (1971) 17 Cal.App.3d 1, 21; see also, *Wannamacher v. Del Oro Water Co.* (1993) 50 Cal.P.U.C.2d 310, 312.)

It seems clear that the three service territories are not similarly situated because the costs to serve them are different. Consequently, we find that there is no discrimination.

In sum, there is substantial evidence in the record to support adoption of Edison's zonal allocation methodology. Applicants have not demonstrated legal error.

IV. Allocation Adjustments

A. Adjustments to SDG&E's Allocation

PG&E, Edison and TURN/Aglet all assert that while the Revenue Requirement Decision purportedly adopted the Edison allocation methodology, the actual allocation percentages do not reflect Edison's proposal. (PG&E Application, at p. 6; Edison Application, at p. 3; TURN/Aglet Application, at p. 10.) The parties are correct. The allocation percentages used in the Revenue Requirement Decision did not reflect the percentages proposed under the Edison methodology due to our adoption of two adjustments that were not part of Edison's methodology. These adjustments updated SDG&E's sales figures and reduced the amount allocated to SDG&E by $65 million to account for a lead/lag accrual to cash. PG&E and Edison have challenged both of these adjustments.

First, PG&E and Edison assert that the Commission relied on extra-record evidence to update SDG&E's sales figures. (PG&E Application, at p. 8; Edison Application, at pp. 5-6.) Upon review of the circumstances that led to the use of the updated SDG&E sales figures, we agree with PG&E and Edison. SDG&E had transmitted its updated sales figures to the Commission's Energy Division shortly after the ALJ's Proposed Decision had been mailed. These updated figures were not served on other parties nor made part of the administrative record of this proceeding. Consequently, we shall modify the Revenue Requirement Decision and reallocate DWR's revenue requirement based on the sales figures stated on the bottom of page 43 of the decision, which are the numbers in the record. These figures are as follows:

	DWR Sales (GWh)
PG&E	47,430
Edison	35,639
SDG&E	15,724
Total	**98,793**

Although these sales figures reflect an outdated forecast, they were used by all the parties in their proposed allocation methodologies. Additionally, even though the utilities' actual sales will differ from the forecast, their remittances to DWR will be based on the applicable per kWh charge multiplied by the actual power delivered to their customers by DWR. Any overcollection or undercollection of DWR's revenue requirement resulting from these sales differences will be accounted for in DWR's next revenue cycle.

Second, PG&E and Edison maintain that the $65 million adjustment given to SDG&E to reflect DWR's lead/lag accrual to cash for January is unwarranted. (PG&E Application, at p. 11; Edison Application, at p. 7.) PG&E asserts that since DWR's February 21st letter had eliminated the $401 million lead and replaced it with an $11 million lag in payments, the basis for the adjustment no longer exists. (PG&E Application, at p. 11.) Edison states that the adjustment is not needed because its proposed methodology, which was adopted by the Commission, already provides SDG&E with a $73 million adjustment, which reflects the lead/lag accrual to cash in January 2001. (Edison Application, at p. 8.)

Upon consideration of Edison's arguments, we conclude that, while the $65 million adjustment would have been appropriate under the month-by-month pro rata allocation approach applied in the ALJ's Proposed Decision, it is inappropriate under the adopted methodology, which would allocate the lead/lag adjustments in proportion to each utility's net revenue requirement.[5] As Edison explained in its rehearing application, since the Lead/Lag Accrual to Cash was allocated in proportion to Net Ratepayer Costs for the entire 24-month revenue requirement period, rather than on a monthly basis, SDG&E did receive the appropriate benefit**,** reflecting the fact that they did not receive DWR power, for January 2001. (Edison Application, at p. 8.)

SDG&E disputes this assertion. It maintains that since DWR did not revise the (Lag) Lead Accrual to Cash for the first quarter of 2001, it is still entitled to receive the $65 million lead/lag adjustment. (Response of San Diego Gas & Electric Company to Applications for Rehearing of D.02-02-052, at pp. 4-5.) Although SDG&E presented arguments why the $65 million adjustment was appropriate under an allocation methodology that ignored the effects of the January 2001 accrual to cash, it has not explained why those same arguments justify the adjustment under the allocation methodology adopted in this order. Under the zonal allocation methodology adopted in this order, as explained above, the effects of the January 2001 accrual to cash are already captured in the allocation methodology. SDG&E has therefore already received a $73 million lead/lag adjustment which includes applicable amounts for transactions in January 2001. SDG&E has not made a persuasive argument why it is entitled to an additional $65 million adjustment. Consequently, we conclude that the $65 million adjustment thus constitutes double counting and should not have been included in the allocation. Accordingly, we shall modify the decision to remove this $65 million adjustment from SDG&E's revenue allocation.

As a result of eliminating these two adjustments, the modified allocation percentages reflect those in Edison's proposed methodology. The

[5] PG&E's assertion is incorrect, as DWR's correction of the lead/lag amount from a $401 million lead to an $11 million lag occurred in the last quarter of 2001. Thus, the period in question, the first quarter of 2001, was not affected by this correction.

allocation percentages, amounts and cents per kWh charge for each utility are shown below:

	PG&E	Edison	SDG&E
Revenue Allocation ($000s)	$4,368,955	$3,459,257	$1,217,249
Allocation Percent	48.3%	38.2%	13.5%
Charges (cents / kWh)	9.211	9.706	7.742

Accordingly, the following modifications shall be made to the decision:

1. Footnote 1 on page 2 is deleted.

2. The tables on pages 3 and 77 shall be replaced with the following table:

Utility	($000's) Revenue Allocation	% Allocation
PG&E	$ 4,368,955	48.3%
SCE	$ 3,459,257	38.2%
SDG&E	$ 1,217,249	13.5%
Total	$ 9,045,462	100.0%

3. The cents/kWh for each utility on pages 4, 104 (FOF 29), and 114 (OP 3) shall be replaced with the cents/kWh charges as noted above.

4. The dollar allocation and percentages for each utility on pages 104 (FOF 28) and 114 (OP2) shall updated in accordance with the amounts stated in the table above.

5. The second full paragraph on page 74 and the first full paragraph on page 75 are deleted and replaced with the following:

> "We conclude that SDG&E's proposed adjustment of $65 million to correct for DWR's lead/lag accrual to cash has no merit. SDG&E's concerns have been addressed under the allocation methodology adopted in this decision, as the lead/lag adjustments are allocated in proportion to each utility's net revenue requirement. (Exh. 162, at p. 1.) Consequently, since it did receive the appropriate benefit for January 2001 under this methodology, an additional

> $65 million adjustment would result in a greater benefit than it is entitled to receive."

B. Proposed TURN Adjustments

TURN/Aglet contend that the decision violates Public Utilities Code section 1705 because it lacks findings on the three adjustments proposed by TURN. (TURN/Aglet Application, at p. 12.) TURN/Aglet argue that the Commission must discuss these adjustments in great detail, even though TURN's allocation methodology was not adopted. It is not clear that such findings were required, because Public Utilities Code section 1705 only requires that Commission decisions "contain, separately stated findings of fact and conclusions of law by the commission on all issues <u>material</u> to the order or decision" (emphasis added). Nevertheless, in order to avoid any confusion, we will provide further discussion as to why we did not make any additional adjustments to the adopted methodology based on TURN's recommendations and add findings of fact on those matters.

The first adjustment requested by TURN dealt with the definition of "net short," more specifically, the way in which line losses and WAPA contracts are treated in calculating the net short figure. (See TURN's Opening Brief at 12.) However, TURN's Opening Brief points out that its line loss modification is designed to deal with what it saw as problems in DWR's pure postage stamp method. (TURN's Opening Brief at 13.) Since that is not the method we have adopted, we see no reason to make this line loss adjustment. With regard to the WAPA contracts, TURN's Opening Brief states that its own witness conceded that its concern in this regard may have been fixed by DWR in its November 5, 2001 presentation. (TURN's Opening Brief at 12.) In light of this concession, we saw no reason to further consider this aspect of TURN's proposal.

The second adjustment requested by TURN dealt with pumped storage facilities. This issue is addressed below, in connection with PG&E's application for rehearing.

The third adjustment requested by TURN was an adjustment to take account of the self-provision of ancillary services. The testimony of Edison's witness Stern shows that Edison's allocation of ancillary services costs was "net of self-provision". (Testimony of Stern, Exh. 150, p.28.) Because the adopted methodology incorporates this aspect of Edison's proposal, we see no reason to make any further adjustment for self-provision of ancillary services.

TURN also requests clarification on whether the Commission approved its adjustments. It somehow believes that the Commission approved its adjustments because it stated on page 72 of the decision that TURN's approach was preferable to PG&E's because of the adjustments. (TURN/Aglet Application, at p. 12.) However, this statement was merely to indicate that TURN's approach was the more preferable pro rata allocation methodology. TURN ignores the decision's discussion of the shortfalls of the pro rata allocation methodologies on the following page of the decision, and the fact that we adopted Edison's allocation methodology on page 77 of the decision. Given the fact that TURN's methodology was not adopted, it should be clear that its adjustments were also not adopted. However, to eliminate any ambiguity, the following sentence shall be added after the second sentence in the first paragraph on page 77: "The adopted methodology does not incorporate any of the adjustments proposed by parties advocating the postage stamp allocation methodology, except to the extent that they have already been reflected in DWR's figures and SCE's methodology."

PG&E asserts that the Commission should have adopted TURN's proposed adjustment to credit PG&E with the benefits of operating the Helms pumped storage plant. (PG&E Application, at pp. 10-11.) PG&E contends that this adjustment should be made to provide PG&E with the right incentives for operating Helms in an efficient manner. However, the purpose of this decision is to allocate DWR's revenue requirement among service territories, not to provide incentives to utilities to conduct their operations in a reasonable manner. PG&E is under an obligation to operate its facilities in a reasonable manner regardless of whether it receives incentives for doing so, and should, as TURN suggests, coordinate its operation of Helms with DWR and the ISO. Accordingly, there is no error in our not adopting the Helms adjustment in this decision.

C. Retroactive True-up Based on Hourly Data

Edison maintains that the Commission erroneously failed to permit the possibility of retroactively truing-up DWR's revenue requirement allocation based on hourly data. (Edison Application, at pp. 9-10.) It argues that since the Commission has not foreclosed the possibility of allowing true-ups based on hourly data prospectively, it should also permit the possibility for retroactive true-up on hourly data.

We find no merit to these arguments. The Revenue Requirement Decision allocates DWR's revenue requirement for 2001 and 2002. Most of that time has already passed, with true-ups having been performed on a monthly basis. The administrative complexities and additional burdens placed on parties to true-up the allocations based on hourly data are still unknown and may not be determined until this current revenue requirement period is almost over. Permitting further true-up of the current revenue requirement only serves to create additional uncertainty with respect to the current allocation. Therefore, allowing retroactive true-up of the current revenue requirement allocation on an hourly basis is not reasonable. Accordingly, we did not err in only providing the possibility of allowing true-ups based on hourly data prospectively.

V. Challenges to DWR's Revenue Requirement

In its rehearing application, PG&E challenges certain costs that DWR included in its revenue requirement (PG&E Application, at pp. 19-25.) Specifically, PG&E believes these costs may not be included because they are based on misrepresentations or known factual inaccuracies or not permitted under the Water Code.

PG&E does not dispute the Commission's decision to adopt DWR's recommended reduction of interim loan costs by $349 million. However, it complains that the Commission should have actually deducted $1.338 billion. (PG&E Application, at p. 20.) It believes that by not deducting the higher amount, DWR has overstated its revenue requirement and is "double charging" customers. PG&E contends that there is record evidence showing that DWR's Power Fund has sufficient surplus to cover all of DWR's interim loan costs during the current revenue requirement period. (PG&E Application, at p. 21.) PG&E's assertions are incorrect. First, there is no double charging. DWR's November 5th revenue requirement assumed that no bonds would be sold in 2002 and that its interim financing would remain in place for the current revenue requirement cycle. Based on this assumption, it determined that its financing costs would be $1.338 billion. In its February 21st letter, DWR revised this assumption and assumed that the bonds would be issued before its fourth quarter 2002 interim loan payment was due. However, DWR has and must still make quarterly interest and principal payments on its interim financing up through the third quarter of 2002. Consequently, there is no "double counting" as alleged by PG&E. Second, what PG&E terms as the Power Fund's "surplus" is money that DWR has informed the Commission is required to meet DWR's debt service coverage obligation on the interim financing. The interim financing requires DWR "to submit filings that demonstrate that the initial fund balance, plus the revenues collected from ratepayers, less operating expenses, will equal at least 110 percent of debt service payable under the interim financing." (State of California Department of Water Resources Determination of Revenue Requirements, filed Nov. 5, 2001, at p. 27.) Since, according to DWR, this amount is necessary to meet the coverage requirements of the interim loan, PG&E has mischaracterized this amount as a "surplus."

Our decision to reduce DWR's revenue requirement is based on DWR's February 21st letter, which stated that its revenue requirement may be reduced by $349 million, "contingent on the sale of the Bonds in advance of the fourth quarter's payments on the Interim Loan." (Letter from Peter S. Garris, February 21, 2002, at p. 2.) PG&E has not shown why we could or should reduce the interim loan costs by more than this amount. Consequently, we properly reduced interim loan costs by $349 million.

PG&E next states that the revenue requirement should be revised to remove any costs that are associated with losses incurred from the sale of surplus power. It asserts that under Water Code section 80116 DWR may not recover such losses from customers. (PG&E Application, at p. 21.) PG&E misreads section 80116. That section merely provides that DWR may sell surplus power and limits the maximum amount it may charge for that power. However, it does not prevent DWR from recovering losses associated with such sales from end-use customers. Furthermore, it is unlikely that the Legislature expected DWR to purchase the exact amount of power required at all times. Since electricity cannot be stored, DWR would necessarily sell any surplus. Indeed, such action would serve to minimize the losses that would be incurred from surplus energy. Consequently, it is not unreasonable to assume that such losses from sale of surplus power should be included in DWR's revenue requirement. Additionally, D.02-02-051, which approved a rate agreement between the Commission and DWR, deferred resolution of whether DWR may recover losses associated with surplus power from customers. (D.02-02-051, at p. 32, fn. 107.) PG&E's proposal would prematurely determine this issue and is therefore inappropriate. If it is ultimately determined that DWR may not recover these losses from customers, DWR will account for this in its next revenue cycle. However, until such a determination is made, DWR has not unlawfully included these costs.

PG&E further contends that DWR has misrepresented the justness and reasonableness of its revenue requirement since the Governor and the California Electricity Oversight Board have challenged the reasonableness of DWR's long-term power contracts before the Federal Energy Regulatory Commission (FERC). (PG&E Application, at p. 23.) Therefore, it maintains that the Commission erred in accepting a revenue requirement that it knew was not accurate. These assertions have no merit. The challenge currently before the FERC relates to the justness and reasonableness of a FERC-filed rate. As long as DWR is required to pay the current rate in those long-term contracts, AB 1X permits DWR to recover those costs from customers. Consequently, PG&E's challenge is not valid.

Finally, PG&E maintains that since DWR's revenue requirement is subject to balancing account treatment, and thus subject to refund in the event of overcollection, the Revenue Requirement Decision should have required that the balancing account bear an appropriate interest rate. (PG&E Application, at p. 24.) PG&E is incorrect. First, any overcollection in DWR's revenue requirement in the current revenue cycle is not subject to refund, but will be used to reduce DWR's revenue requirement in the next revenue requirement cycle. (D.02-02-052, at p. 82.) Second, unlike the utilities, who may invest overcollections for other purposes, DWR may be restricted in what it may do with its cash balances. Therefore, it would be inappropriate to require that any DWR overcollection be subject to a certain interest rate.

VI. Franchise Fees

In its rehearing application, the City of San Diego contends that the Revenue Requirement Decision errs in failing to acknowledge that in a separate docket, the Commission had determined that it was entitled to franchise fees derived from revenues associated with DWR power sales. (City of San Diego Application, at p. 6.) It further asserts that if the Revenue Requirement Decision intended to change this prior determination, it violated Public Utilities Code section 1708 by failing to provide prior notice of this intent. Finally, the City of San Diego alleges that by failing to impose franchise fee responsibility on DWR, the Revenue Requirement fails to implement DWR's revenue requirement in compliance with the California Constitution. (City of San Diego Application, at p. 7.) These assertions are without merit.

In a separate docket (A.00-10-045 et al.), in D.01-09-059, we granted an interim rate increase to SDG&E of 9.02 cents/kWh payable by customers of SDG&E to DWR. In D.01-10-035, the decision denying the City of San Diego's rehearing application of D.01-09-059, we indicated that the tariffs filed by SDG&E preserved the status quo by including franchise fees due to municipalities from revenues associated with DWR's sale of power to SDG&E customers. (D.01-10-035, at p. 3.) The City of San Diego misreads D.01-10-035. This decision did not conclude that the City was entitled to franchise fees associated with DWR power sales revenue. Rather, it merely stated that until issues relating to franchise fees were resolved, SDG&E's tariffs, which preserved the status quo, satisfied the City's concerns. However, preserving the status quo does not resolve the legal and factual issues raised. Consequently, the decision concluded that "any issues relating to franchise fees are more appropriately addressed in a proceeding involving all three utilities." (D.01-10-035, at p. 3.)

The Revenue Requirement Decision does not modify D.01-10-035. To maintain the status quo, franchise fees associated with DWR's power sales are to be remitted to the municipalities by the utilities. (D.02-02-052, at p. 38.) However, the utilities shall track these payments in a memorandum account. The memorandum accounts will be disposed of upon resolution of the franchise fee issues. Thus, the Revenue Requirement Decision defers disposition of the franchise fee issue, but ensures that the municipalities receive franchise fees on revenue associated with DWR power sales and that the utilities track these payments. This is the same resolution reached in D.01-09-059 and D.01-10-035.

Accordingly, there is no modification to D.01-09-059 or D.01-10-035. Since the Revenue Requirement Decision is not modifying D.01-09-059 or D.01-10-035, there is no violation of Public Utilities Code section 1708.

While we find no error, we agree with City of San Diego that the decision does not acknowledge that, pursuant to a Commission decision issued in a separate docket, SDG&E had preserved the status quo by including franchise fees associated with revenue from DWR power sales in its tariffs. Therefore, the decision shall be modified as follows:

1. The following shall be inserted in the second paragraph on page 38, after the sentence starting with "We shall determine a further disposition of the franchise fee…":

> Pursuant to D.01-09-059, issued under docket A.00-10-045 et al., SDG&E has included in its tariffs franchise fees associated with revenues derived from DWR's sales to SDG&E customers. In D.01-10-035, the decision denying City of San Diego's rehearing application of D.01-09-059, the Commission indicated that the tariffs filed by SDG&E merely preserved the status quo by including franchise fees due to municipalities from revenues associated with DWR's sale of power to SDG&E customers. However, preserving the status quo does not resolve the legal and factual issues raised. D.01-10-035 notes that "any issues relating to franchise fees are more appropriately addressed in a proceeding involving all three utilities." (D.01-10-035, at p. 3.)

2. The last full sentence on page 38 shall be modified to read: "Similarly, in this decision, we do not reach the issue of whether franchise fees are owed on revenues associated with DWR sale of power, but rather order the utilities to maintain the status quo until this issue is resolved."

3. On page 104, the following Finding of Fact shall be inserted after FOF 25: "Pursuant to D.01-09-059, SDG&E has included in its tariffs franchise fees associated with revenues derived from DWR's sales to SDG&E customers."

4. On page 112, the following Conclusion of Law shall be inserted after COL 18: "While SDG&E preserves the status quo by including franchise fees due to municipalities from revenues associated with DWR's sale of power to SDG&E customers in its tariffs filed pursuant to D.01-09-059, its action also does not resolve the legal and factual issues raised."

The City of San Diego's arguments regarding the need to impose franchise fee responsibility on DWR are essentially the same arguments it raised in its prior comments. As explained in the Revenue Requirement Decision, the legal and factual issues concerning franchise fees associated with DWR's power sales revenues have not been satisfactorily resolved by parties' comments. (D.02-02-052, at pp. 37-38.) Moreover, including these additional costs in this decision that applies to all three utilities, without permitting an opportunity for all parties to comment, is not only premature at this point, but also legally questionable. Consequently, City of San Diego's comments are without merit.

In its rehearing application, PG&E contends that the Commission erred in requiring the utilities to remit franchise fees associated with revenues from DWR power sales before first resolving the franchise fee issues. (PG&E Application, at p. 22.) It suggests that the Revenue Requirement Decision remove this obligation until these issues are resolved. PG&E has not provided a convincing argument why the Commission should not order the utilities to remit franchise fees associated with DWR's power sales to the municipalities at this time. As discussed, we are simply maintaining the status quo regarding remittance of franchise fees. PG&E's suggestion would only harm the municipalities. There is no harm to utilities by ordering these remittances, since the decision provides that such remittances shall be tracked in a memorandum account to ensure that the utilities are ultimately made whole. (D.02-02-052, at p. 38.) Consequently, PG&E has failed to demonstrate legal error.

VII. The Correcting Order

On March 1, 2002, the Commission's Executive Director issued D.02-03-003 (Correcting Order), which corrected several clerical errors in the Revenue Requirement Decision. The Executive Director issued this Order pursuant to Resolution A-4661, which authorizes the Executive Director to sign, on behalf of the Commission, orders "involving the correction of typographical and clerical errors, and other obvious, inadvertent errors and omissions in the decisions and orders of the Commission." (Resolution A-4661, March 9, 1977.) On March 11, 2002, PG&E filed an application for rehearing of the Correcting Order, alleging that the Executive Director exceeded his authority because the Correcting Order made substantial changes to the Revenue Requirement Decision when it corrected the cents per kilowatt-hour charge to be remitted by SDG&E. (PG&E Application of Correcting Order, at p. 2.) Thus, PG&E asserts that, in addition to providing parties an opportunity to comment on the modifications, such changes could only be made by Commission vote.

PG&E's assertions are without merit. The correction of SDG&E's cents/kWh charge was due to a mathematical error. The Executive Director is authorized to make such corrections under Resolution. A-4661.

Due to the modifications to discussed in Section IV.A. above, two corrections made in the Correcting Order, the correction of the cents/kWh charge and the replacement of the allocation table, are no longer applicable. Thus, the Correcting Order shall be modified to delete the title and corresponding text in the sections entitled "DWR Cents/kWh Charge " and "DWR Allocation Calculation " on page 1 of the Correcting Order. Additionally, the title "Payment of Shortfalls in Prior Period DWR Remittances" on the top of page 2 shall be deleted, and only the text of that section shall remain. Finally, OP 1 and 3 on page 2 shall be modified to correct the decision number from "D. 02-02-025" to "D. 02-02-052".

The modifications to the Correcting Order noted above render PG&E's allegations moot. Therefore, there is no basis for granting rehearing.

VIII. Correction of Clerical Errors

We have determined that as a result of clerical oversight, the following changes need to be made to the Revenue Requirement Decision:

1. In the first full paragraph on page 17, the sentence "DWR asserts that it is not obligated by law to provide information regarding its revenue requirement in public workshops before the staff of the Commission, but has done so on a voluntary basis" essentially repeats the first sentence of that paragraph. Therefore, this sentence shall be deleted

2. In the full paragraph on page 20, the last two sentences are the same. Therefore, the last sentence shall be deleted.

3. On page 108, FOF 55 and 61 are the same. Therefore, FOF 61 shall be deleted.

4. Text on page 82, relating to how DWR's revenue requirement will be trued-up, erroneously retains language from the prior draft decision. Additionally, certain language that was to have been inserted into this section of the decision was left out. This additional language explained the methodology for truing-up the allocations under the adopted methodology. Accordingly, the last full paragraph on page 82 of the decision shall be deleted and replaced with the following text:

> "At the designated time for DWR to submit its revised forecast therefore, DWR will also submit its true-up of the prior periods' differences between forecasted and actual data. The difference between actual costs incurred and actual revenues collected by DWR will result in either an undercollection or overcollection. The total under- or overcollection in revenue requirement will be assigned by applying the allocation methodology adopted in this order to recorded costs. Accordingly, long-term contract costs (i.e., greater than 90 days) will be allocated pro rata to the customers of each utility service territory based on the respective monthly net short positions actually covered by DWR Short-term contract costs will be allocated among

> the utilities based on the actual costs of purchases separately measured North and South of Path 15.
>
> For purposes of computing the true-up of forecast-to-actual costs to be allocated to each utility service territory, it therefore will be necessary for DWR to separately report actual costs for short-term power (i.e., 90-days or less) segregated between sources north of Path 15 and south of Path 15. These actual costs can then be used to implement the true-up of the interutility allocation of short term power costs on a zonal basis, consistent with the methodology adopted in this order. By contrast, the actual costs of long term contracts need not be separately reported on a zonal basis, since they will be trued up using the statewide pro rata allocation approach as adopted herein.
>
> Any overcollection or undercollection will be taken into account in determining subsequent adjustments in DWR charges to be remitted."

5. There is language in the decision, which requires only PG&E, but not Edison or SDG&E, to remit to DWR amounts associated with imbalance energy for the period prior to November 7, 2001. (D.02-02-052, at p. 95.) This language should be removed, as the decision stated on the prior page that the obligations of the utilities to remit imbalance energy amounts to DWR were currently being negotiated between DWR and the utilities and that the Commission would not interfere with the outcome of these negotiations. Additionally, Conclusion of Law 28 on page 113 shall be deleted.

Additionally, the Revenue Requirement Decision contains numerous typographical errors, which we shall also correct in this decision.

ORDER

IT IS ORDERED that:

1. D.02-02-052 is modified as follows:

a. On page 2, the following sentence is added after the first full paragraph: "We incorporate DWR's adjustments and hereby reduce DWR's revenue November 5, 2001 requirement to $9,045,462,000."

b. On page 2, footnote 1 is deleted.

c. The following table replaces the tables on pages 3 and 77:

Utility	**($000's) Revenue Allocation**	**% Allocation**
PG&E	$ 4,368,955	48.3%
SCE	$ 3,459,257	38.2%
SDG&E	$ 1,217,249	13.5%
Total	$ 9,045,462	100.0%

d. On page 4, the cents/kWh charge for each utility is replaced with the following charges: 9.211 cents/kWh for PG&E, 9.706 cents/kWh for SCE and 7.742 cents/kWh for SDG&E.

e. On page 17, the sentence "DWR asserts that it is not obligated by law to provide information regarding its revenue requirement in public workshops before the staff of the Commission, but has done so on a voluntary basis" is deleted.

f. On page 20, the last sentence in the full paragraph on that page, "Appendix B of this decision sets forth comments of the parties on specific elements of DWR's revenue requirement forecast with which they take exception" is deleted.

g. On page 38, the following is inserted in the second paragraph, after the sentence starting with "We shall determine a further disposition of the franchise fee…":

> Pursuant to D.01-09-059, issued under docket A.00-10-045 et al., SDG&E has included in its tariffs franchise fees associated with revenues derived from DWR's sales to SDG&E customers. In D.01-10-035, the decision denying City of San Diego's rehearing application of D.01-09-059, the Commission indicated that the tariffs filed by SDG&E merely preserved the status quo by including franchise fees due to municipalities from revenues associated with DWR's sale of power to

SDG&E customers. However, preserving the status quo does not resolve the legal and factual issues raised. D.01-10-035 notes that "any issues relating to franchise fees are more appropriately addressed in a proceeding involving all three utilities." (D.01-10-035, at p. 3.)

h. On page 38, the last full sentence is modified to read: "Similarly, in this decision, we do not reach the issue of whether franchise fees are owed on revenues associated with DWR sale of power, but rather order the utilities to maintain the status quo until this issue is resolved."

i. On page 65, the words "Certain parties argue that" are inserted between the words "Thus," and "attempting" in the second full sentence.

j. On page 65, the second full paragraph are deleted and replaced with the following:

> "Moreover, certain parties contend that higher prices paid by DWR for power delivered into the transmission grid north of Path 15 that were paid during the early months of 2001 might have been caused in part by other factors besides just congestion, exclusively. For example, various contract prices DWR agreed to are a function of *when* DWR signed the contracts rather than *where* the power was ultimately consumed. Prices are also a function of the structure of the contracts, for example whether they include a separate capacity component, are indexed to natural gas prices, or call for delivery only during specified times of the day. Prices can be a function of the term of the contracts, as well. Certain parties argue that SDG&E and SCE did not adjust out such extraneous factors, but simply assumed the entire price differential was due to transmission congestion and thus assignable only to PG&E customers."

k. On page 65, the first two sentences of the last paragraph are deleted and replaced with the following:

> "We conclude that at least for long-term contract volumes, the causes of the price differential cannot fairly be attributed exclusively to customers in the PG&E service territory. We agree that congestion

> costs were at least in part a reflection of a statewide dysfunctional market during the early part of 2001, rather than purely a product of the physical configuration of the system."

l. On page 66, the second full paragraph are deleted and replaced with the following:

> "In the same way that we cannot attribute dysfunctional price increases to particular customers, by virtue of their type, likewise, we cannot entirely attribute such prices increases only to certain customers, simply by virtue of their location. Therefore, while PG&E customers certainly should absorb some share of the NP 15 congestion charge differential, they should not shoulder the entire burden."

m. On page 66, the last paragraph, which continues onto page 67, is deleted and replaced with the following:

> "Even if theoretically, the costs of supplies that were used to serve PG&E customers were systematically higher than for southern California customers, development of differential allocation methods has been impeded by the difficulties faced by parties in gaining access to modeling information, including the PROSYM input data set that underlies the DWR model."

n. On page 67, the second full paragraph is deleted.

o. On page 67, the word "also" is deleted from the first sentence of the last paragraph.

p. On page 68, the first two full paragraphs are deleted and replaced with the following:

> "On balance, we are unpersuaded that the price differentials across Path 15 as computed by SDG&E, at least to the extent they apply to long term contract costs can reasonably be attributed as higher costs to serve only PG&E customers to the exclusion of southern California utility customers.

> Because any price differential between DWR's costs for power delivered north of Path 15 and for power delivered south of Path 15 was likely at least to a partial extent to have been the consequence of dysfunctional statewide market rules, there is insufficient basis to allocate all of NP 15 costs, particularly long-term contract costs, to PG&E customers based on the theory of cost causation."

q. On page 69, the following sentence is be inserted at the end of the continuation paragraph from page 68: "Nonetheless, we conclude that SCE's assumption that short-term contract costs were incurred on a zonal basis provides a reasonable approximation of cost flows in the absence of more precise or reliable data."

r. On page 69, the first sentence of the first full paragraph is deleted.

s. On page 69, the following is added after the first full paragraph:

> "This conclusion is consistent with DWR's stated procurement objectives which included matching "intrastate regional electric needs (north and south of Path 15 transmission constraints) to locations of supply." (see DWR Data Response as cited in Exh. 155 and 157). Simply applying a uniform "postage-stamp" rate to all power deliveries would fail to recognize the role played by matching of regional needs with regional sources of supply.
>
> As SCE notes, to the extent that regional locations of supplies were used to meet electric needs of customers in the same region, it is reasonable to attribute those supplies to short-term, rather than long-term, supply sources. (Stern/Exh. 150, page 11-12). While long-term contract power was procured to serve the overall needs of California consumers as a whole, short-term power was procured to fill in the specific remaining needs of the customers in each of the utility service territories. (RT 39: 5862:10-15/ Stern). During periods where transmission constraints precluded

> delivery of cheaper SP 15 short-term power from being delivered to NP 15 customers, DWR would have to consider delivery location in meeting that NP 15 need. (RT 39:5863:18-26). Therefore the allocation of short-term power costs on a zonal basis provides recognition that at least some portion of the power deliveries were matched geographically to sources of supplies."

t. On page 72, the words "of both short-term and long-term contract volumes" is added to the end of the first sentence under "f. Postage Stamp Methodology".

u. The second full paragraph on page 74 and the first full paragraph on page 75 are deleted and replaced with the following:

> "We conclude that SDG&E's proposed adjustment of $65 million to correct for DWR's lead/lag accrual to cash has no merit. SDG&E's concerns have been addressed under the allocation methodology adopted in this decision, as the lead/lag adjustments are allocated in proportion to each utility's net revenue requirement. (Exh. 162, at p. 1.) Consequently, since it did receive the appropriate benefit for January 2001 under this methodology, an additional $65 million adjustment would result in a greater benefit than it is entitled to receive."

v. On page 77, the following sentence is inserted after the second sentence in the first paragraph: "The adopted methodology does not incorporate any of the adjustments proposed by parties advocating the postage stamp allocation methodology, except to the extent that they have already been reflected in DWR's figures and SCE's methodology."

w. On page 82, the last paragraph is deleted and replaced with the following:

> "At the designated time for DWR to submit its revised forecast therefore, DWR will also submit its true-up of the prior periods' differences between forecasted and actual data. The difference between actual costs incurred and actual revenues collected by DWR will result in either an undercollection or overcollection. The total under- or

> overcollection in revenue requirement will be assigned by applying the allocation methodology adopted in this order to recorded costs. Accordingly, long-term contract costs (i.e., greater than 90 days) will be allocated pro rata to the customers of each utility service territory based on the respective monthly net short positions actually covered by DWR Short-term contract costs will be allocated among the utilities based on the actual costs of purchases separately measured North and South of Path 15.
>
> For purposes of computing the true-up of forecast-to-actual costs to be allocated to each utility service territory, it therefore will be necessary for DWR to separately report actual costs for short-term power (i.e., 90-days or less) segregated between sources north of Path 15 and south of Path 15. These actual costs can then be used to implement the true-up of the interutility allocation of short term power costs on a zonal basis, consistent with the methodology adopted in this order. By contrast, the actual costs of long term contracts need not be separately reported on a zonal basis, since they will be trued up using the statewide pro rata allocation approach as adopted herein.
>
> Any overcollection or undercollection will be taken into account in determining subsequent adjustments in DWR charges to be remitted."

x. On page 95, the first two full paragraphs are deleted.

y. On page 104, the following Finding of Fact is inserted after FOF 25: "Pursuant to D.01-09-059, SDG&E has included in its tariffs franchise fees associated with revenues derived from DWR's sales to SDG&E customers."

z. On page 104, FOF 28 is deleted and replaced with the following: "28. The allocation of DWR's revenue requirement as adopted in the ordering paragraphs below results in a revenue responsibility (in dollars and percentages) for PG&E's service territory in the amount of $4,368,955,000 (48.3%); for SCE's service territory of $3,495,257,000 (38.2%); and for SDG&E's service territory of $1,217,249,000 (13.5%)."

aa. On page 104, FOF 29 is deleted and replaced with the following: "29. The allocation of DWR's revenue requirement as adopted in the ordering paragraphs below results in a uniform cents-per-kWh charge applicable to billed revenues for PG&E's service territory in the amount of 9.211; for SCE's service territory in the amount of 9.706; and for SDG&E's service territory in the amount of 7.742."

bb. On page 107, FOF 49 is deleted and replaced with the following:

> "49. To the extent that regional locations of supplies were used to meet electric needs of customers in the same region, it is reasonable to attribute those supplies to short-term, rather than long-term, supply sources.
>
> 49a. While long-term contract power was procured to serve the overall needs of California consumers as a whole, short-term power was procured to fill in the specific remaining needs of the customers in each of the utility service territories."
>
> 49b. The fact that DWR considered geographical factors in procuring short-term contracts further supports an allocation of short-term contract costs using a zonal methodology.
>
> 49c. There is no need to further consider TURN's proposed adjustment dealing with line losses and WAPA contracts, because the line loss adjustment was proposed to deal with alleged problems with a pure postage stamp methodology that the Commission is not adopting, and TURN's own witness conceded that its concern with the WAPA contracts may already have been fixed.
>
> 49d. It is not necessary to adopt TURN's proposed pumped storage adjustment in this decision because the purpose of this decision is to allocate DWR's revenue requirement among service territories, not to provide incentives to utilities to conduct their operations in a reasonable manner. The utilities are already under an obligation to operate their facilities in a reasonable manner regardless of whether they

receive incentives for doing so, and should coordinate their pumped storage operations with DWR and the ISO.

49e. There is no need to make a further adjustment to our adopted methodology to take account of self-provision of ancillary services, as the adopted methodology allocates ancillary service costs net of self-provision.

cc. On page 108, FOF 61 is deleted.

dd. On page 111, COL 10 shall be deleted and replaced with the following:

"10. It is reasonable to adopt SCE's allocation approach to the extent that it assigns short-term costs on a zonal basis, and long-term costs on a statewide pro rata basis.

10a. There is not sufficient basis at this time to adopt SCE's proposal to allocate power costs on an hourly basis, but such proposal may be given further consideration in a subsequent allocation proceeding on a prospective basis."

ee. On page 112, the following Conclusion of Law is inserted after COL 18: "While SDG&E preserves the status quo by including franchise fees due to municipalities from revenues associated with DWR's sale of power to SDG&E customers in its tariffs filed pursuant to D.01-09-059, its action also does not resolve the legal and factual issues raised."

ff. On page 113, COL 28 is deleted.

gg. On page 114, OP 2 is deleted and replaced with the following: "2. The total DWR revenue requirement is hereby allocated among the customers in the service territories of three major utilities as follows: for the service territory of Pacific Gas and Electric Company (PG&E) in the amount of $4,368,955,000; for the service territory of Southern California Edison Company (SCE) in the amount of $3,459,257,000; and the remaining allocation to the service territory of San Diego Gas & Electric Company (SDG&E) in the amount of $1,217,249,000."

hh. On page 114, the first sentence in OP 3 is deleted and replaced with the following: "PG&E, SCE, and SDG&E are directed to begin disbursement of proceeds to DWR, as required by their respective servicing agreements or Commission order, using the respective charges in cents-per-kilowatt-hour (kWh) of 9.211 for PG&E, 9.706 for SCE and 7.742 for SDG&E."

2. D.02-02-052 is modified to correct the following clerical and typographical errors:

a. In the first sentence on page 2, the word "Resources' " is changed to "Resources".

b. In the paragraph immediately following the table on page 3, the words "June 2002" are changed to "June 2001".

c. On the first line on page 8, the word "executive" is changed to "executed".

d. In the last paragraph on page 16, the words "revenue requirements" are changed to "revenue requirement".

e. In the second full paragraph on page 23, the amount $18.014 billion" is changed to "$17.253 billion" to conform with Appendix A.

f. On page 25, the word "a" is inserted between the words "on" and "quarterly" in the first sentence.

g. On page 25, the word "utilities 's" in the last full sentence of that page is changed to "utilities' ".

h. On page 27, the words "energy savings for 2002" in the second full sentence are changed to "energy savings for 2001".

i. On page 40, the words "revenue requirements" in the first sentence are changed to "revenue requirement".

j. In the third full paragraph on page 40, the words “Revenue Requirements” are changed to “Revenue Requirement”.

k. On page 48, the colon after the words “Exhibit 153” is replaced with a period.

l. In the second full paragraph on page 82, the words “No only do” should be deleted and the word immediately following, “we”, should be capitalized.

m. In the second full paragraph on page 91, the word “interests” in the first sentence is changed to “interest”.

n. In FOF 12 on page 102, the date “November 21, 2001” is changed to “November 5, 2001”.

o. In FOF 40 on page 106 the words “of a geographical” are changed to “on a geographical”.

p. In FOF 68 on page 109, the words “and SCE” are added to the end of the sentence.

q. In COL 7 on page 110, the words “could be decided by the Commission” are deleted.

r. In COL 9 on page 111, the word “an” is inserted between the words “for” and “interim”, and the word “increases” is changed to “increase”.

s. In COL 11 on page 111, the word “DWR” is changed to “DWR’s”.

t. In COL 12 on page 111, the words “the cost” are changed to “DWR’s cost”, and the words “DWR service” are changed to “service”.

3. D.02-03-003 is modified as follows:

a. The titles and corresponding text under the sections entitled “DWR Cents/kWh Charge “ and “DWR Allocation Calculation” on page 1 are deleted.

b. The title "Payment of Shortfalls in Prior Period DWR Remittances" on the top of page 2 is deleted.

c. Ordering Paragraphs 1 and 3 on page 2 are modified to correct the decision number from "D. 02-02-025" to "D. 02-02-052".

4. This decision incorporates all changes made in D.02-03-003, as modified.

5. Rehearing of D.02-02-052, as modified, and of D.02-03-003, as modified, are denied.

This order is effective today.

Dated March 21, 2002 at San Francisco, California.

LORETTA M. LYNCH
President
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

I will file a written dissent

/s/ HENRY M. DUQUE
Commissioner

unstable over time. Power flows over Path 15 when the line is constrained depend on weather conditions, and transmission constraints on Path 15 are not in effect all the time. Thus, certain parties argue that attempting to model transmission constraints as a variable in DWR cost allocation would result in volatility, and unfairly magnify the price adjustments on utility ratepayers.[6]

Moreover, certain parties contend that higher prices paid by DWR for power delivered into the transmission grid north of Path 15 that were paid during the early months of 2001 might have been caused in part by other factors besides just congestion, exclusively. For example, various contract prices DWR agreed to are a function of *when* DWR signed the contracts rather than *where* the power was ultimately consumed. Prices are also a function of the structure of the contracts, for example whether they include a separate capacity component, are indexed to natural gas prices, or call for delivery only during specified times of the day. Prices can be a function of the term of the contracts, as well. Certain parties argue that SDG&E and SCE did not adjust out such extraneous factors, but simply assumed the entire price differential was due to transmission congestion and thus assignable only to PG&E customers.

We conclude that at least for long-term contract volumes, the causes of the price differential cannot fairly be attributed exclusively to customers in the PG&E service territory. We agree that congestion costs were at least in part a reflection of a statewide dysfunctional market during the early part of 2001, rather than purely a product of the physical configuration of the system. After FERC adopted measures to help minimize or eliminate the market flaws in California, the pricing across Path 15 changed substantially. Price differentials between north of Path 15 and south of Path 15 power have been diminishing, or

[6] See Ex. 160, Weil Testimony, page 4.

have practically disappeared. Witness Nelson testified that New York Mercantile Exchange prices for 2002 deliveries suggest that NP 15 prices might be lower than SP 15 prices in the future.[7]

To the extent that flawed market rules were due to statewide dysfunctionality of the market, the impacts of those rules cannot reasonably be isolated only to one geographical sector of California consumers. This finding is consistent with D. 01-05-064 where we stated that “no customer is causing the exorbitant electricity prices faced by the utilities and CDWR. Thus, it would be unfair to attribute the current wholesale market prices as caused by any particular type of customer…. The price of wholesale energy bears no relationship to the cost of production, but is rather a function of what price can be extracted from the California market through manipulation.” [8]

In the same way that we cannot attribute dysfunctional price increases to particular customers, by virtue of their type, likewise, we cannot entirely attribute such prices increases only to certain customers, simply by virtue of their location. Therefore, while PG&E customers certainly should absorb some share of the NP 15 congestion charge differential, they should not shoulder the entire burden.

Even if theoretically, the costs of supplies that were used to serve PG&E customers were systematically higher than for southern California customers, development of differential allocation methods has been impeded by

[7] Ex. 157, p. 4.
[8] D.01-05-064, *mimeo*, pg. 18

the difficulties faced by parties in gaining access to modeling information, including the PROSYM input data set that underlies the DWR model.

SDG&E's witness Mr. Croyle admits that the quality of the data is less than optimal, but believes that his proposed allocation moves toward a cost basis that is more robust than alternative methods (Ex. 153, pp. 2-3). CLECA witness Barkovich testified that it is not possible for other parties to verify the results of DWR's modeling efforts, which are a function of unverifiable input assumptions and the algorithms contained in the model. The production of locational prices, the aggregation of these prices to ISO congestion zones, and the connection of these zones to the service areas of the three utilities are all open to question (Ex. 159, p. 3-4).

The use of a uniform pro rata allocation approach on a statewide basis is consistent with how DWR's production cost model works. DWR uses the PROSYM production cost model to simulate the operation of the western regional electric system, and to estimate DWR's total power purchase costs to serve a single statewide service territory. DWR has also developed a financial model which takes output from PROSYM and determines DWR's needs for utility customer revenues on a statewide basis, taking into account estimates of purchase volumes, ancillary services, and financing costs.[9]

On balance, we are unpersuaded that the price differentials across Path 15 as computed by SDG&E, at least to the extent they apply to long-term contract costs, can reasonably be attributed as higher costs to serve only PG&E customers to the exclusion of southern California utility customers.

[9] See Ex 163, p. 2-3.

Because any price differential between DWR's costs for power delivered north of Path 15 and for power delivered south of Path 15 was likely at least to a partial extent to have been the consequence of dysfunctional statewide market rules, there is insufficient basis to allocate all of NP 15 costs, particularly long-term contract costs, to PG&E customers based on the theory of cost causation.

c. Distinctions in the Allocation of Fixed Price Versus Short Term Purchases

We find interesting the proposal by SCE to apply different allocation methodologies based on whether a cost relates to a long term fixed price or a short term purchase. SCE witness Stern testified that "[DWR] did not distinguish the delivery location in their process of procuring those long-term contracts." SCE distinguishes, however, between (a) long term contracts used to serve the joint needs of all customers with no regional differences and (b) short term power purchases presumed to meet the separate needs of each utility from distinctly different sources of regional supply.

We find reasonable SCE's basic contention that DWR, as was the case when the utilities covered their own net short, would make many short term purchases from resources in or close to their service territories, all else being equal. However, SCE witness Stern acknowledged that DWR has not provided any information associated with the specific reasons for entering into individual short term contracts or spot purchases, for example, whether DWR was motivated by transmission constraints or price factors. (Stern, 39 RT 5864:25-5865:14) Nonetheless, we conclude that SCE's assumption that short-term contract costs were incurred on a zonal basis provides a reasonable approximation of cost flows in the absence of more precise or reliable data.

DWR purchased only shorter term electricity products during the first three months of 2001, then began incurring long term contract costs in April 2001.[10] However, power was more expensive in Northern California that in Southern California on average during this time. It is reasonable to conclude that DWR bought the costlier Northern California power at least in part because transmission constraints and the need for local voltage support and other grid needs required that power be purchased in Northern California to serve PG&E and its customers.

This conclusion is consistent with DWR's stated procurement objectives which included matching "intrastate regional electric needs (north and south of Path 15 transmission constraints) to locations of supply." (See DWR Data Response as cited in Exh. 155 and 157.) Simply applying a uniform "postage-stamp" rate to all power deliveries would fail to recognize the role played by matching of regional needs with regional sources of supply.

As SCE notes, to the extent that regional locations of supplies were used to meet electric needs of customers in the same region, it is reasonable to attribute those supplies to short-term, rather than long-term, supply sources. (Stern / Exh. 150, page 11-12). While long-term contract power was procured to serve the overall needs of California consumers as a whole, short-term power was procured to fill in the specific remaining needs of the customers in each of the utility service territories. (RT 39: 5862:10-15 / Stern). During periods where transmission constraints precluded delivery of cheaper SP 15 short-term power from being delivered to NP 15 customers, DWR would have to consider delivery

[10] See Exhibit 151-A, Stern; the exhibit is confidential, but the cited fact is not. (See Stern, 40 RT 5966:7-10.)

location in meeting that NP 15 need. (RT 39:5863:18-26). Therefore the allocation of short-term power costs on a zonal basis provides recognition that at least some portion of the power deliveries were matched geographically to sources of supplies.

d. Allocation Based on Monthly Versus Hourly Cost Data

SCE has proposed that the DWR revenue requirement be pro rated based upon cost data disaggregated into hourly increments. Since hourly DWR cost data is not currently available to parties, SCE proposes an interim allocation based upon monthly net short data, with provision for a true-up using hourly data once DWR makes it available. SCE argues that anything less precise than hourly data will not provide for an accurate allocation of costs.

PG&E opposes the proposal for hourly allocation of data, arguing that it is too administratively complex and burdensome, and offers only a false sense of precision. The use of hourly cost data would entail maintaining 720 separate hourly cost reports per month. PG&E claims that if the hourly data is not well maintained, the cost allocation controversies over the hourly data will be endless.

SDG&E agrees in principle with the goal of precision that SCE seeks to achieve with hourly allocation. SDG&E questions, however, the practicality of implementing an hourly allocation given the complexities involved. SDG&E witness Croyle also observes that if all load in a block contract is priced at the same price in every hour, it is not necessary to allocate costs across the individual hours. The same result is obtained by allocating the cumulative energy among the utilities in aggregate. [11] PG&E likewise argues that hourly data would not

[11] SDG&E, Croyle, Tr. Vol. 40, p. 6003.

provide a true reflection of cost causation for that hour because contracts typically use an average price for power provided across several hours of a day, perhaps for many days across months, seasons, and even years. In instances where a contract price averages the on peak and off peak prices, the average hourly price in the contract causes on-peak costs to be understated, and off-peak costs to be overstated. Thus even an hourly allocation approach would not capture the true avoided costs for each on-peak or off-peak hour, and the resulting hourly allocations would not give an accurate picture of actual hourly cost causation. Furthermore, PG&E argues that such an hourly allocation would not send price signals that could be relied upon to ensure efficient statewide dispatch of power resources.

In theory, we agree that the use of hourly cost allocations could provide more precise measures of cost causation as a basis for revenue allocation as contrasted with monthly cost data. Even if the hourly prices in DWR's contracts may be constant over several hours or reflect an average of on peak and off peak avoided costs, an hourly allocation would still more accurately correspond the net short position of each utility which varies on an hourly basis. An hourly weighting of the each utility's net short position would provide a more precise weighted average for cost allocation than would a monthly average. Although DWR has expressed a willingness to provide the requisite data needed to make the necessary hourly allocations, the data has not been provided for the record at this point. Accordingly, it remains uncertain as to how problematic it would be to obtain the necessary hourly data by each utility, and to agree upon its accuracy and reasonableness. We are not persuaded at this time that an adequate case has been made that the potential administrative complexities, litigiousness, and burden associated with an hourly cost allocation are offset by the potential for more precise measurement of cost causation in allocating DWR revenues.

Accordingly, we shall not make a final judgment regarding the use of hourly cost data for allocation purposes for future DWR allocation. We shall provide SCE or any other party the opportunity to make a further showing in the next DWR update proceeding. By that time, hopefully, DWR would have made available the requisite data, and parties will be able to provide a more empirical analysis about the practicalities of performing hourly-based allocations. For purposes of this order, we shall use monthly data for determining the allocations, but shall leave open the possibility of prospectively allocating DWR costs based on hourly data in the event we subsequently determine to use such data in a future proceeding.

e. ORA's Averaging Approach Criterion

We decline to adopt the averaging of two mutually contradictory approaches proposed by ORA for allocation purposes. Although ORA seeks to incorporate the purported advantages of two opposing allocation methods, ORA also imports the attendant disadvantages of each method. Moreover, ORA's method further complicates the issue by introducing a new allocation variable, namely, the percentage of weighting to assign to each of the two opposing methods that ORA uses. ORA provides only an anecdotal comparison of the relative merits of the two methods, but offers no quantitative rationale why a 50/50 weighting of the two alternatives is preferable to a 25/75 weighting, or some other weighting. Because ORA provides no basis to conclude that the comparative net advantages of each of the two methods are equivalent, its 50/50 weighting appears to be arbitrary. We conclude that whatever method is adopted, it should be based upon a consistent set of allocation principles and assumptions. ORA's method does not fit this criterion. We therefore decline to adopt it.

f. Postage Stamp Methodology

Both PG&E and TURN have offered different allocation calculations based generally on the pro rata (postage stamp) approach to allocation of both short-term and long-term contract volumes. Of these two proposals, we conclude that TURN's is preferable in that it takes into account certain utility-specific adjustments that reflect more specifically the costs related to each utility. However, we note that in making these adjustments, TURN and to a lesser degree PG&E, lead to the same conclusion as SCE's proposal: that certain costs should be allocated pro rata and that other factors should be taken into account to reflect perceived inaccuracies in relying solely on a simple pro rata allocation.